OPENING STATEMENT BY THE REPRESENTATIVE OF NEW ZEALAND

1. During the consultations with the Committee in July of last year New Zealand reported that its balance-of-payments situation had deteriorated. Unfortunately there was little improvement during 1966/67 and in fact towards the end of this period the market for New Zealand wool virtually collapsed. The outlook for 1967/68 is clouded by the very uncertain wool situation.

In contrast to the previous year when rapidly rising domestic expenditure resulted in a very sharp increase in imports, payments for imports fell slightly during 1966/67. This reflected a much slower rate of expansion of domestic activity. Export receipts rose slightly but the improvement in the trade balance was almost cancelled out by a very large increase in the deficit on invisible transactions. With reserves already at a relatively low level New Zealand was once again faced with the difficulty of raising additional funds from the world capital markets.

Since the beginning of 1967 the New Zealand Government has taken a series of measures aimed at further curbing domestic demand and these are already having a marked effect on the level of domestic activity. Domestic spending is slackening off, unemployment is rising, and there is some evidence of a build-up of stocks. Demand for imports is declining but due to the time-lags involved this has not yet been fully reflected in the balance of payments. The extent to which the deficit on current account is reduced to more manageable proportions will, however, largely depend on what happens to exports, particularly wool.

2. Overseas exchange transactions

Following marked increases in the March years 1963/64 and 1964/65 and a levelling off in 1965/66, export receipts rose by 2.8 per cent or $22 million in 1966/67. This was mainly due to additional receipts from the sale of dairy products. Meat and wool receipts both declined. The wool receipts figure does not reflect the full impact of the very substantial fall in wool prices that has occurred over the past season. This is only now beginning to show in the foreign exchange returns.
Import payments after rising very rapidly in 1965/66 fell by $20 million in 1966/67. This fall can be mainly attributed to the measures introduced throughout last year to reduce domestic spending and thereby the demand for imports. The trade surplus rose accordingly to $73 million compared with $32 million in 1965/66.

Offsetting this improvement was a $31 million increase to $150 million in the deficit on invisible transactions - a 20.6 per cent increase compared with an average increase of 9.9 per cent over the previous four years. This increase in the deficit on invisibles was mainly due to higher freight charges, a greater number of New Zealand residents travelling overseas, increased export promotion expenses and higher charges for a wider range of technical services in the private and public sectors.

The current account deficit in 1966/67 at $107 million was therefore slightly lower than the $118 million in 1965/66. The financing of the 1966/67 current account deficit is explained in the basic document which members of the Committee have received.

It is of concern to note that the overseas exchange reserves at the end of May this year, usually a seasonal high point, stood at $104 million compared with $127 million at the same time last year and $166 million two years earlier. With import payments running at a level of $56 million per month there is obviously no scope for using the reserves to finance the normal adverse seasonal swing in our external transactions in the second half of 1967. Again we face the considerable problem of raising additional finance overseas. A drawing of $21 million from the International Monetary Fund under its compensatory financing scheme to help cover the shortfall in export receipts following the slump in wool prices has been arranged but this will not be sufficient of itself and funds will have to be raised from other sources.

3. Export prospects

Future prospects for export receipts are dominated by the wool situation. No very significant changes are foreseen with respect to other commodities and receipts by and large are expected to reflect increased export sales.
When reporting to this Committee last year we forecast a rise of 6 per cent in wool receipts, based on an expectation that wool prices would remain stable. The downturn in wool prices in late 1966 was sudden and unforeseen. Compared with an average price of 34.7 cents per pound in 1965/66 it now appears that the average price for the season ending 30 June 1967 will be about 29.4 cents per pound. On the basis of last season's average price, export receipts for wool would have been $254 million for the 1967 June year compared with the present estimate of $172 million. The substantial difference is due to the fact that about one third of the wool offered was bought by the New Zealand Wool Commission as the price quoted by buyers was less than the Commission floor price.

Production for export during 1967/68 is expected to be 750 million pounds compared with 725 million pounds last season. In addition there is also the 230 million pounds now held by the New Zealand Wool Commission. No reliable estimate can be made yet about average price or the volume likely to be sold.

Sharp fluctuations in price have been a common feature of the raw wool market for many years. There is a possibility that the current weakness of the market is more than a cyclical fluctuation following on from the general restraint in economic activity in industrialized countries. It has been suggested that synthetic fibres have made a significant breakthrough and captured an increased share of the raw wool market. However, there is no evidence at present to suggest that a massive shift from wool to synthetics is taking place.

Meat production for export in the first eight months of the current season (October to May) rose by 10.2 per cent, a consequence of the rapid growth of livestock numbers in the last two years and, to a lesser extent, an increase in sheep killings as a result of the decline in wool prices.

In the 1967/68 season the export production of meat is expected to increase by a further 9.0 per cent, and a corresponding increase in meat export receipts is anticipated. Prices for lamb in the United Kingdom have, however, been falling over recent months and it is possible that larger quantities of lamb reaching the United Kingdom market could have a further downward influence on prices.

The price of butter in the United Kingdom, New Zealand's largest market for butter, is expected to remain at about $600 per ton. Sales to other markets are likely to suffer from the increasing pressure of heavily subsidized supplies from European sources. Quantities available for export from New Zealand are expected to increase but it is not thought that butter export receipts will rise during the June 1968 year.
The United Kingdom is also the biggest market for New Zealand cheese. Production of cheese for export is expected to increase by 4.6 per cent but export prices could weaken as a consequence of the recent intensification of import restrictions by the United States which could result in a diversion of supplies to the United Kingdom market.

Intensive efforts have been made to diversify our export markets. These have been rewarded with some success particularly in regard to mutton and certain milk products, e.g. casein and skim milk powder. Access for our major products, lamb, butter and cheese, continues to be hindered by protection and agricultural policies.

New Zealand - like other trading nations - placed considerable hopes on the Kennedy Round but unfortunately the net result has been little or no improvement in access for our major exports. From New Zealand's point of view the negotiations fell far short of our objectives and in the important dairy sector were a complete failure.

To make matters worse a number of countries have introduced measures to reduce further what limited access we already had. The most important of these are the new United States dairy import restrictions.

4. Internal policies

As explained in the basic document New Zealand has taken a series of measures to reduce demand for overseas exchange, increase export earnings, and reduce internal liquidity and demand. As noted in the Fund's decision following consultations under Article XIV of the Fund, fiscal measures additional to those recorded in the basic document were implemented in May 1967. These comprised increased indirect taxes and charges over a wide range of commodities. In a full year these will result in increased revenue of $50 million or over 1 per cent of gross national product.

The Budget presented in June provided for an increase in Government expenditure of 1.4 per cent compared with an average rate of increase of 9 per cent over the previous three years. In addition a new scheme of development bonds yielding up to 6 1/4 per cent per annum was introduced as a further stimulus to savings.

Finally it should be recorded that the guaranteed price for butterfat for the coming season has been reduced by 5 per cent and the floor price for wool by an average of 10 per cent. There could be associated reductions in farm incomes with further deflationary effects.
5. **The 1967/1968 import licensing schedule**

A detailed explanation of the current import licensing schedule and the recent changes made to it are contained in the basic document. The outline of the schedule was settled before the wool price decline in late 1966. The Government made no changes subsequently preferring instead to rectify the balance-of-payments situation by reducing the level of internal demand.

Despite the continuing pressure on its balance of payments the policy of the New Zealand Government remains - the progressive relaxation of import licensing and the provision of greater flexibility and freedom within the system. Considerable progress towards this objective has already been made and now over one third by value of New Zealand's private imports are exempt from import licensing.

6. **Conclusion**

New Zealand continues to face serious balance-of-payments difficulties. The Government has taken appropriate fiscal and other measures to keep domestic spending in line with the likely level of available resources both internal and external. Progress towards further liberalization of the remaining import controls will depend on the extent to which there is an improvement in our export earnings. Leaving aside the question of wool, this in turn is largely dependent on the establishment of more equitable trading conditions for temperate agricultural products. Failure to achieve this must not only affect New Zealand's future trading policies but also call into question the whole effectiveness of the GATT as an instrument for promoting fair and liberal trading conditions.